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STATE FOR WHA/AND
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SUBJECT: GOB REVISES NATIONAL DEVELOPMENT PLAN

REF: A. LA PAZ 2197
 B. LA PAZ 279
 C. LA PAZ 1614

11. (SBU) Summary: The GOB is revising its National Development Plan (NDP) based on suggestions from businesses and social organizations and conducting a debt sustainability analysis with German aid. It appears that the National Development Bank will likely be a second-tier institution, but with "parallel" GOB direct-lending efforts. The government announced the formation of a second-tier system in June with an initial USD 100 million grant from Venezuela. However, Venezuela purchased a large share of Bolivia's state-owned Union Bank, which may become part of the second-tier system or may supplant it as a direct lender. In addition, according to the Vice Minister of Industry, Venezuela granted a second USD 100 million which the Ministry plans to lend directly to small businesses based on political criteria. The GOB's desire to incorporate business feedback into the NDP, define its vague terms, and consider the realistic financial constraints on the plan are positive steps. However, the government's political-based, first-tier lending plan represents a worrisome trend. End summary.

GOB Revises National Development Plan

12. (U) The GOB announced on August 31 that it is making changes to its National Development Plan (NDP) based on suggestions from businesses and social organizations and that a new, more detailed version of the plan would be released the third week of September. Planning Minister Carlos Villegas told the press that three aspects of the plan would be refined, including the Development Bank and production programs. The Planning Ministry is conducting an external debt sustainability analysis with support from the German government to ascertain the amount of financing required to meet the Millennium Development Goals "within the framework of the NDP." The study is scheduled to be completed in November, in advance of the donor consultative group meeting scheduled for February 2007.

Second Tier National Development Bank

¶3. (SBU) The original National Development Plan stated that the GOB would create a second tier development bank that would channel loans to small businesses via existing financial institutions, but that if that plan did not produce satisfactory results, a first tier development bank would be instituted to lend directly to clients. The GOB announced in June that it had established a second tier system, which would channel funds through an existing state financial entity (NAFIBO) with initial financing of USD 100 million granted by Venezuela (ref C). The press reported on September 11 that the National Development Bank would be formed by fusing three state financial entities already in existence (NAFIBO, FONDESIF, and FNDR), which would channel capital from the state to small businesses.

Venezuela Purchases Shares of Union Bank

¶4. (SBU) Meanwhile, embassy contacts informed us that Venezuela purchased a large percentage of the Bolivian state-owned Union Bank. Union Bank published its strategy in late August stating that it would divide the bank into two units -- one for traditional business and one devoted to development. It indicated that the development unit, with state capital and bank profits, would work through microfinance NGOs to on-lend. However, the bank's strategy is dependent on GOB approval, and it remains unclear what the government's intentions are with respect to the structure of the development unit of Union Bank, i.e. whether it will be first-tier or second.

Parallel Direct-Lending Effort

¶5. (SBU) According to the Vice Minister of Industry, the GOB has received another USD 100 million grant from Venezuela to fund small business production, which is a "parallel effort" to the national development bank. (Note: This USD 100 million is in addition to the previous Venezuelan pledge of USD 100 million that the GOB is using to fund a second tier development bank (ref C). End note.) The Vice Minister explained that 45 businesses have already been selected by the GOB for political reasons to receive loans which will be handed out directly by the Minister of Production, rather than channeled through a formal financial institution. The loans will have two-year grace periods, ten-year repayment periods, low interest rates of around five percent, and either lax or no collateral requirements. The 45 chosen businesses are in the quinoa, soy, honey, textiles, tourism, wood, leather, and jewelry sectors. Given the lack of credit checks and the soft conditions of the loans, repayment rates are likely to be poor.

¶6. (SBU) Comment: The GOB's desire to incorporate business feedback into the NDP, define its vague terms, and consider the realistic financial constraints on the plan are positive steps. The GOB's indications that the National Development Bank will be a second-tier institution is also positive, because, as noted previously (ref B), a second tier development bank that provided capital to lenders would do less harm to the financial system, particularly microfinance institutions, than a first tier institution that lent directly to clients. However, the government's "parallel effort" of political-based, first-tier lending sets a worrisome precedent. End comment.

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